Many Large Banks Expand Private Placement Businesses; Citibank No. 1 in '85

➳ Continued from Back Page

dling such financings.

Big banks are indeed handling more private placements than they have in years past but continue to lag far behind their Wall Street counterparts. And it doesn't require more than a quick glance at the rankings to conclude that the banks probably won't be in competition for the top spot any time soon.

Salomon Brothers Inc. led all managers of private placements last year, handling $10.6 billion in 169 issues. That gave Salomon a 14.4% share of the private market, exceeding the combined market shares of Citibank, Morgan Guaranty, Bankers Trust, and Bank of America, according to IDD.

'The fact of the matter is, we're trying to avoid making low-spread loans to hold onto.'

— Rob Lawrence
Vice President
Citibank

Once considered a bank's booby prize for failing to win a corporation's loan business, the private placement is now viewed by lending institutions as a valuable means of competing for hefty investment banking fees. On a typical $30 million private issue, a bank can collect a half of a percentage point fee, or about $150,000.

As heavy capital requirements shrink profit margins on commercial and industrial loans, private placements take on an added luster. Here's how a few bank managers explain it:

• Tom McGrath, vice president in charge of private placements at First Chicago: "Private placements do not use the bank's balance sheet at all. There is no commitment on the bank's part. It's a very pure fee-related business."

• Walter Bloomenthal, managing director running the private placement unit at Continental Illinois National Bank and Trust Co.: "The only risk associated with a private placement is the risk of spending a lot of time on a deal and not collecting anything [in the end]. But that's a helluva lot better than making a $1 million loan and not collecting on that."

• Michael Enthoven, a senior vice president who recently moved from Morgan Guaranty's London office to head the bank's private placement operation in New York: "Morgan views itself as a global securities firm. And this product fits very well with that strategy, carrying ever more importance to the bank."

• Mr. Lawrence of Citibank: "The fact of the matter is, we're trying to avoid making low-spread loans to hold onto."

If commercial banks are going to prove themselves as diversified corporate finance specialists, it will happen first with their private placement operations. With few exceptions, banks and securities firms have equal access to private placements — a claim that cannot be made in most other areas of investment banking.

"The private placement business is a very good barometer for how we're doing in pursuing our [merchant banking] strategy," said Mr. Powell of Bankers Trust. He said his unit has shown consistent growth in volume and profitability in recent years.

Ranked third among commercial banks and 12th among all financial institutions, the private placement business at Bankers Trust generated $5.2 million in 1985, and "in 1986 we're already exceeding $6 million," Mr. Powell said. "It's going to be a very good year."

'The only risk associated with a private placement is the risk of spending a lot of time on a deal and not collecting anything [in the end]. But that's a hell of a lot better than making a $1 million loan and not collecting on that.'

— Walter Bloomenthal
Managing Director
Private Placement Unit
Continental Illinois

Bankers Trust, specializing in lease-related financings and leveraged buyout deals, handled 97 issues worth $2.4 billion last year, according to IDD's tally. Among commercial banks, Bankers Trust's volume was exceeded only by Citibank and second-place Morgan Guaranty.

Handling largely plain-vanilla debt financings for many of the bank's Fortune 500 customers, Morgan is seeking to broaden its private placement clientele beyond that elite group. It ranked 11th among all financial institutions, placing 51 issues worth $2.5 billion last year.

Bank of America, which last month reorganized its corporate finance section, ranked No. 4 among banks and 13th overall by handling $2.2 billion in 292 private placements. The giant West Coast bank is hoping to expand its private placement business, which is comprised primarily of bank borrowers that are first-time issuers in the private securities market. About half of Bank of America's private placement volume came in distributions of mortgage-related securities — an area in which the bank ranked second only to Salomon Brothers last year.

Fifth-place First Chicago handled 82 issues worth $2.1 billion in 1985, generating most of its business from the bank's midwestern client base. At Continental Illinois, Mr. Bloomenthal said he expects his bank's 1986 private placement volume to be "up substantially" from the $542 million it handled last year.

Banks in past years wavered in their commitment to the investment banking business but today are beefing up their private placement staffs. Examples: First Chicago's unit has grown to seven specialists from three when it opened in 1983. Morgan has doubled its staff from five in 1983 to 10 today. And Citibank now employs 11 professionals specializing in the private market, compared to just one staffer about two and a half years ago.

"Commercial banks over the previous 10-year period have been without clarity of vision in investment banking," said Mr. Lawrence of Citibank. But even after zeroing in on their goals and progressing steadily last year, banks still face the challenge of breaking up long-standing customer relationships enjoyed by the big Wall Street houses.

"It's a fiercely competitive business," said Mr. Powell of Bankers Trust. Some have gone as far as undercutting fees in order to win market share from the Salomons and Goldmans of Wall Street, according to market sources.

Still, many banks have failed to change their old-fashioned ways, persisting in the attitude that a private placement is one less loan booked by the bank. "Some have tried and failed miserably because of that conflict," Mr. Powell said.

On Friday, the last part of this series will examine commercial banks as managers of new issues in the overseas bond markets.

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Car Loans . . .

➳ Continued from Page 21

the Ford Motor Co., hoping to win the right for banks to take part in its incentive programs. The discussions were unsuccessful.

The state laws in question never have been tested, the association said.

"We believe strongly that car buyers and all borrowers should have the widest possible access to loans at the lowest possible rates," said Thomas Honey, the president of the association.

He added, "We also believe that borrowers should have the opportunity to obtain loans from the consumer banking organizations with which they have long-standing relationships and which experience shows they prefer."

Meanwhile, the American Bankers Association said it has prepared a brochure for banks to use in attempting to win back auto loan customers. Among the "ten tips to save money on financing your new car or truck," as the brochure is called, are warnings that reduced rate financing may be available only on certain models and the suggestion that use of incentive rates may limit a consumer's ability to negotiate a better price. ■

Dear Reader, How Are We Doing?

The editors of *American Banker* want very much to provide you with information that is useful to you in managing your institutions. Would you take a moment to give us some feedback on today's special section on our survey, **The New Investment Bankers?** Please return this questionnaire to William Zimmerman, Editor, *American Banker*, One State Street Plaza, New York, N.Y. 10004 (212) 943-5733.

(1.) How useful was the information in this survey?

(A) Very Useful ☐ (B) Useful ☐ (C) Not Useful ☐

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(4.) What themes or topics of vital interest to you would you like to see explored in future surveys?

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Thank you for helping us improve

AN AMERICAN BANKER SPECIAL REPORT

Banks See Profit in Private Placements

Continued from Page 1

houses.

In a private placement, corporations typically sell their securities to a small number of professional investors, such as insurance companies or pension funds. Because private placements are free of disclosure requirements, they are attractive to corporate borrowers seeking to raise quick capital and avoid the red tape associated with the public debt markets. "With a private issue, we can go in and get a commitment [from investors] in a couple of hours," said Neil Powell, who heads the private placement operation at Bankers Trust Co.

For Tifco, there were few other viable or cheaper sources of capital. The firm wanted to avoid borrowing from its parent insurance company, Alexander & Alexander, which had better uses for its investment capital. And as a wholly owned, unrated subsidiary, it was locked out of both the public debt market and the commercial paper market.

Citibank's answer was to sell seven-

> **'The private placement** business is a very good barometer for how we're doing in pursuing our [merchant banking] strategy.'
>
> **— Neil Powell**
> **Head of private placement operation**
> **Bankers Trust Co.**

year subordinated notes in the private market and, through an interest-rate swap, allow Tifco to pay investors a floating rate based on commercial paper rates rather than locking into fixed-rate payments. "The private market was a better way of solving the client's problem than using the bank's own money," said Rob Lawrence, vice president and head of Citibank's long-term finance department, which includes private placements.

In 1985, Citibank called on its 11-member private placement team to raise more than $2.9 billion in 104 issues, according to IDD Information Services, which ranks commercial banks and securities firms by the volume of private placements they handle. In that tally, Citibank ranked No. 1 among banks and ninth among all institutions for the year.

Four other big banks — Morgan Guaranty Trust Co., Bankers Trust Co., Bank of America, and First National Bank of Chicago — each handled more than $2 billion in private placements last year, according to the IDD ranking. With Citibank, those institutions make up the top five commercial banks in the private placement business, and fall within the top 15 among all institutions.

The ranking is based on the broadest possible definition of a private placement, which goes well beyond the traditional "plain vanilla" sale of debt securities.

It includes placements of certificates of deposit for other institutions, and mortgage-related securities — two areas in which banks naturally excel. The tally also counts securities placed with registration rights, a feature that allows an issuer to register its obligations with the Securities and Exchange Commission at a later date. Some investment banks employ registration rights to finance acquisitions, but federal law precludes commercial banks from han-

Placements: Page 23

High Rankings More Coveted than Most Bankers Admit

By ANDREW ALBERT

NEW YORK — There's something about a published ranking that gets the competitive juices flowing in businesspeople.

Most executives express lack of interest in the so-called league tables, shrugging them off as crude measures of business volume. "Profitability is far more important to us than volume," they say with a yawn. That is, until one asks Bank X why it handled less volume than Bank Y.

Take, for instance, the ranking of private placement volume handled by commercial and investment banks in 1985. The table compiled by IDD Information Services, a financial data firm, placed New York-based Citibank first among commercial banks. Rounding out the top five were: Morgan Guaranty Trust Co., New York; Bankers Trust Co., New York; Bank of America, San Francisco, and First National Bank of Chicago.

For starters, officials at Bankers Trust are quick to point out that IDD will soon publish a revised table moving the bank's private placement unit into second place, one notch ahead of Morgan.

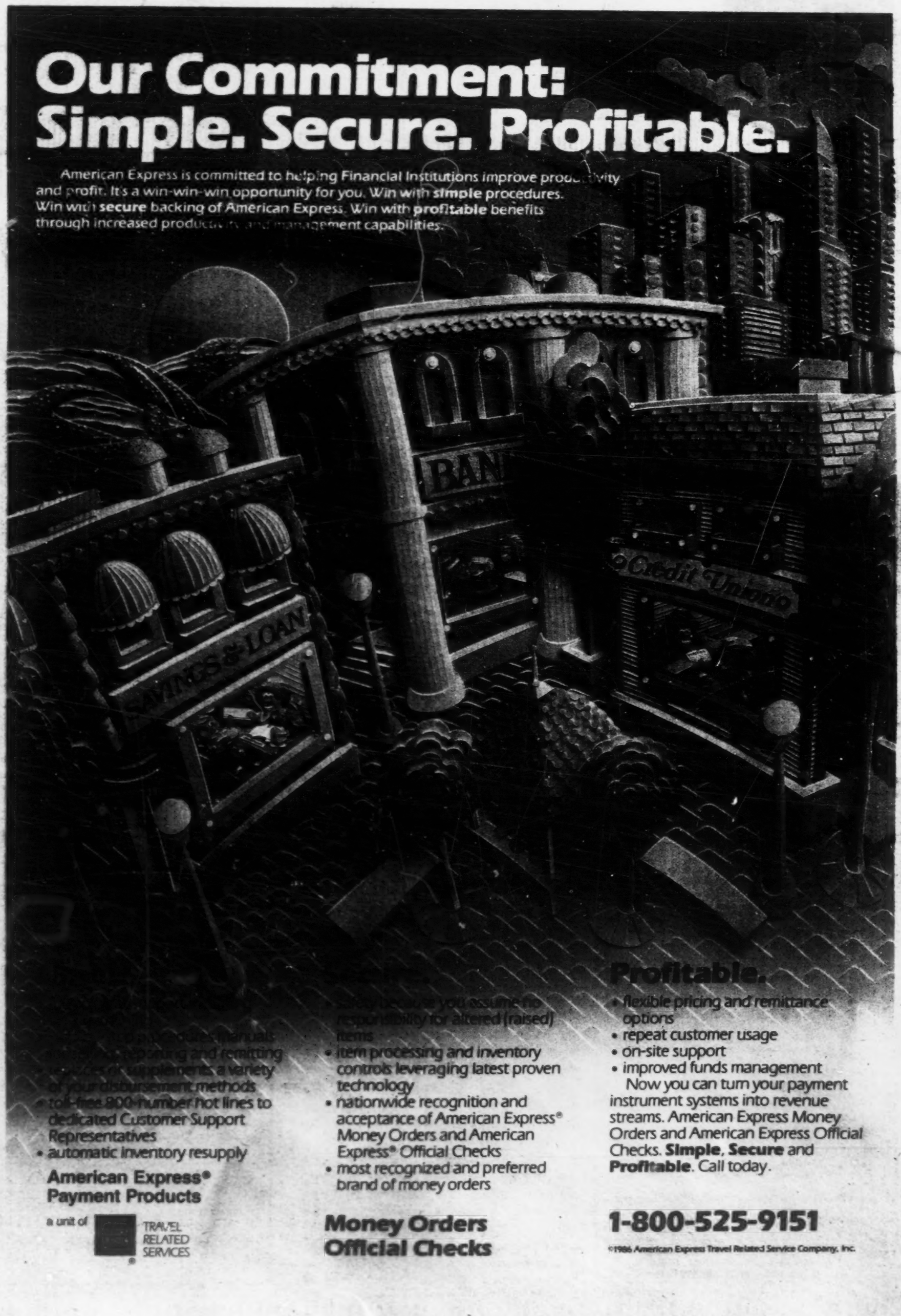
In addition, a few of the runners-up, who requested anonymity, questioned the integrity of the volume figures that Citibank reported to IDD.

"Citibank really hyped its numbers last year," said one private placement chief at a rival bank. He said that the nation's largest bank disguised some of its syndicated loans as securities sales to artificially inflate its private placement volume.

Not true, said Rob Lawrence, who runs Citibank's private placement unit: "We have not bulked up our numbers."

In a private placement, bankers help raise capital for corporations by selling the corporations' securities to a small group of professional investors, such as insurance firms

Rankings: Page 21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TODAY

AMERICAN CAN SALE: In the culmination of a massive restructuring program, American Can Co. announced Thursday it will sell its packaging business to Triangle Industries Inc. for approximately $570 million... 2

AMERICAN EXPRESS GAIN: The American Express Co. on Thursday reported a 156% jump in second-quarter net income, largely thanks to an $88 million after-tax gain from its sale of nine million shares of Fireman's Fund Corp. common stock...2

INTERNATIONAL BRIEFING: Reports that the Australian dollar bond market has recovered from the announcement that offshore financings no longer would be exempt from a 10% withholding tax may be misleading. Several market sources say investors would do well to stay out of the market until the currency has been stable a month, and until the new budget is out..... 2

COSTLY FAILURE: More than half of the $1.1 billion loan portfolio of the failed First National Bank and Trust Company of Oklahoma City could be assumed by the Federal Deposit Insurance Corp., according to documents filed by the agency..... 3

FIRST INTERSTATE PROFITS: First Interstate Bancorp's profits increased 10.4% in the second quarter, despite higher loan losses and an increase in nonperforming assets...3

BANK OF BOSTON EARNINGS: The Bank of Boston Corp. earned 35% more in the second quarter of this year than in the same period a year earlier, the company announced Thursday. The $30.4 billion-asset holding company posted a net income of $53.3 million, or $1.19 per fully diluted share..... 3

FSLIC PLAN WINS NOD: A government plan to raise $15 billion or more for the troubled Federal Savings and Loan Insurance Corp. won quick approval by a House Banking Committee panel Thursday, a signal that Congress will give speedy final passage to the recapitalization effort..... 3

COMMENT: A critical look at the value of high capital standards to banks..... 4

ACCESS TO FUNDS: Depositors of the Commonwealth Savings Co. have received access to some of their funds for the first time since the Lincoln, Neb., industrial loan company collapsed in late 1983.... 7

Executive Changes..... 9

In the News..... 3

Quote

There's no doubt but that the extent of the concessions were unusual — but the times are unusual.

Frank W. Anderson, a bank analyst with the Dallas-based firm of Weber, Hall, Sales & Associates, on concessions the Federal Deposit Insurance Corp. made to the Los Angeles-based First Interstate Bancorp in an agreement for First Interstate to acquire the failed First National Bank and Trust Company of Oklahoma City. [Page 3]

Unquote

AN AMERICAN BANKER S P E C I A

US Banks Keep a Hand in International Bonds

But Securities Firms Have Lion's Share of Market

By M.S. MENDELSOHN

LONDON — Most big U.S. commercial banks act through their offshore investment banking units to manage new issues on international bond markets.

THE NEW INVESTMENT BANKERS

LAST OF A SERIES

However, except for Morgan Guaranty Trust Co. and perhaps Bankers Trust Co., their role in those markets is so small that people wonder why they bother.

"It's a good question," said an executive at the London investment banking subsidiary of a large New York commercial bank. "We have had a lot of discussions about why we are in this business at all, and the signals we get from New York are unclear because they are mixed."

How the top banks ranked among themselves in investment banking activities
Page 15

Morgan's overseas reach
Page 16

Today, the final part of the *American Banker's* investment banking series examines the overseas underwriting operations of U.S. banks, looking closely at why they bother.

Until recently, the weakness of U.S. bank underwriters in the international bond markets did not seem to matter much. During most of the 1970s, bond proceeds accounted for slightly less than half the funds raised on the international capital market. Syndicated loans accounted for slightly more than

Eurobonds: Page 15 ➤

HOW U.S. COMMERCIAL BANKS RANK AMONG THE WORLD'S EUROBOND BOOKRUNNERS

1985 Rank Among U.S. Banks Only	Book Manager	1985 Rank Among All Institutions	Vol. Underwritten U.S. Dollar Equiv. (In Billions)*	No. of Issues Managed	Market Share %
KING OF THE HILL					
	Credit Suisse First Boston	1	$19.027	100	12.7%
U.S. BANK CHALLENGERS					
1	Morgan Guaranty	2	$8.191	67	5.5%
2	Bankers Trust	18	2.422	25	1.6
3	Bank of America	23	1.983	9	1.3
4	Citibank	27	1.804	15	1.2
5	Chase Manhattan	32	1.207	14	0.8
6	Manufacturers Hanover	47	0.502	7	0.3
7	First Chicago	67	0.181	3	0.1
8	First Interstate#	81	0.075	1	0.1
9	Chemical Bank	89	0.051	1	0.1

* Full credit for each issue is given to book manager only. The credit is based on an issue's net proceeds - the total issue amount times offering price -converted into a U.S. dollar equivalent. Only public issues of eurobonds and foreign bonds were counted.

\# Not among the nation's ten largest banks. The table exludes two of the ten largest: Continental Illinois, which does not manage erurobond issues, and Security Pacific, which did not rank among the top 100 bookrunners last year.

Source: Securities Data Co./Euromoney Publications Ltd.

BankAmerica Got Bad News a Week Ago

Loan Damage Undetected Until All Figures Were In, Officer Says

By ROBERT LUKE

LOS ANGELES — BankAmerica Corp. was unaware of a massive deterioration of its loan portfolio until July 10, its chief financial officer, John S. Poelker, said Thursday.

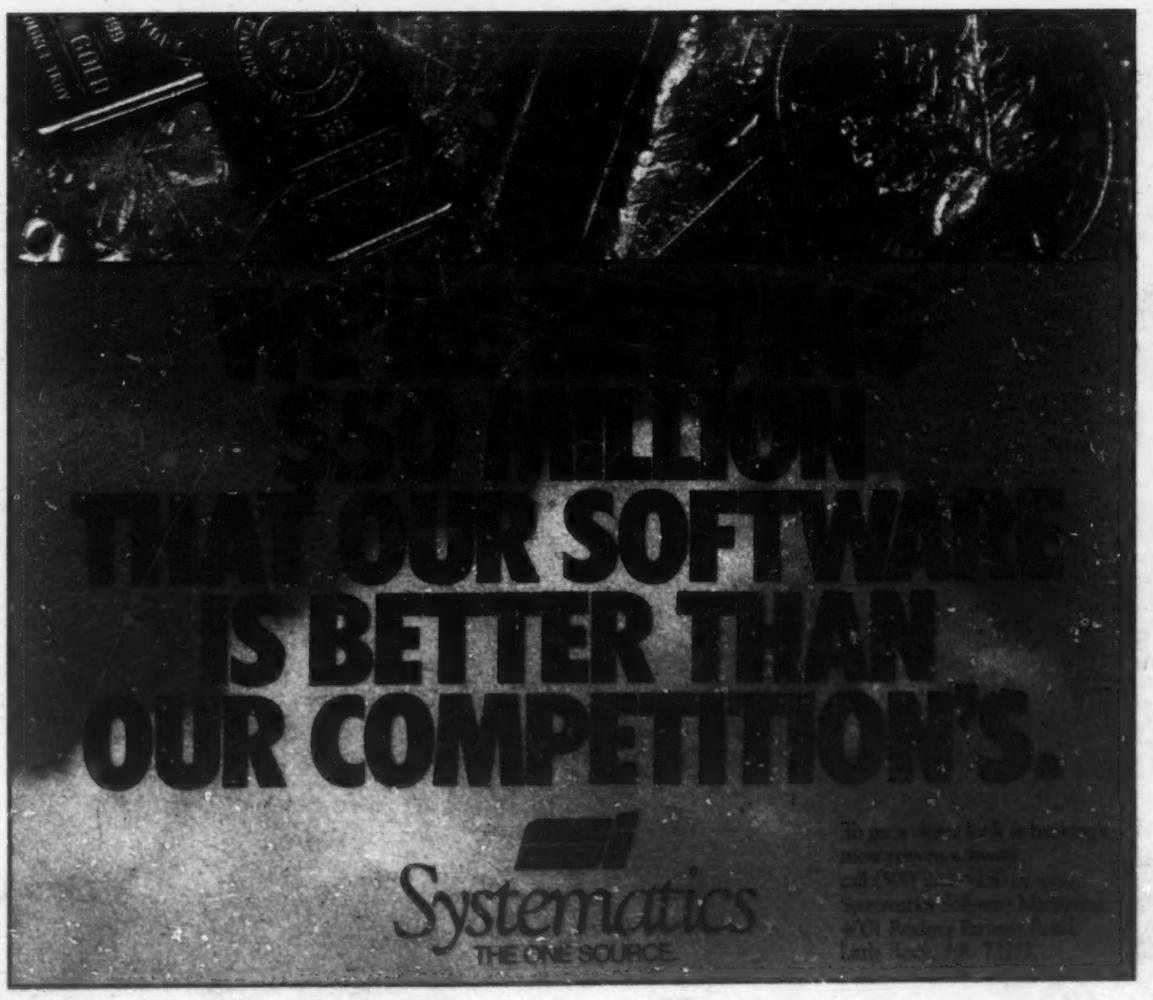
A week after that, BankAmerica announced a $640 million loss in the second quarter, because of a $988 million provision for future loan losses. It attributed the loss provision to eroding asset quality in the energy and commercial real estate sectors.

"It was last Thursday, when we began to get the data gathered up [from 1,000 loan officers worldwide], that we began to get the feeling we would have a situation dramatically different than as recently as three months ago," Mr. Poelker said in an interview.

First Interstate Earnings
Page 3

"We worked all weekend ... and by Monday this week, we had come to the conclusion that we needed to make a fairly substantial contribution to the re-

BankAmerica: Page 10 ➤



A tradition of banking excellence

THIRD NATIONAL CORPORATION
NASHVILLE, TENNESSEE

AN AMERICAN BANKER SPECIAL REPORT

US Banks Edge into Eurobonds

→ Continued from Page 1

half. The offshore outlets of U.S. commercial banks dominated the international syndicated loan market, giving lesser priority to the bond markets.

But since 1982, the proportion of international market capital raised by bond issues has increased from about 42% to 65%, while the proportion contributed by syndicated bank loans has fallen from 55% to 13.5%. The massive shift to the bond market goes a long way toward explaining why U.S. banks insist on maintaining their investment banking footholds abroad.

Still, U.S. banks have fallen far short of making up for lost loan business with Eurobond book-running volume. In fact, when ranked by the volume of new issues managed on the international bond markets, only one U.S. bank — Morgan Guaranty — placed higher than 18th.

Once again, the business was dominated in 1985 by Credit Suisse First Boston Ltd. — an investment bank owned partly by First Boston Inc., the U.S. securities firm. The London-based house ran the books for 100 new international bond issues worth more than $19 billion, according to a tally compiled jointly by Securities Data Co., a financial information firm, and *Euromoney*, a British magazine.

Underwriters were ranked by the volume of new Eurobond and foreign bond issues they managed in 1985; full credit for each public issue was given to lead managers only.

Eurobonds have more international flavor than foreign bonds because they are issued across the world, particularly in Europe and Asia, in any number of currencies by an international syndicate. Foreign bonds are issued in a particular country, in the currency of that country. They are generally underwritten by a syndicate in that same country, but the issuing company is usually based outside that nation.

Last year's new issue market, the tally showed, totaled about $150 billion. Other estimates, which include Yankee bonds issued for nonresident borrowers in New York as well as private placements in all markets, show new issuing volume of about $165 billion for 1985 — an all-time record year, although volume in the first half of this year has been running even higher.

Based on $150 billion in volume, Credit Suisse First Boston holds a 12.7% share of the market, exceeding the combined market share — 11% — of the nine leading U.S. commercial banks in the business.

Only Morgan Guaranty, a perennial runner-up to Credit Suisse First Boston, with a 5.5% share of the market in 1985, can be considered a serious challenger. Through its London outfit, Morgan Guaranty Ltd., it acted as lead manager in 67 issues worth $8.2 billion. It finished the year ranked No. 2 among all bookrunners and first among U.S. commercial banks.

Bankers Trust placed 16th overall and second among U.S. banks, with a market share of about 1.6%. It acted as lead manager on 25 issues valued at about $2.4 billion.

The biggest American commercial banks hardly figure in this league. Bank of America placed 23d among all underwriters in 1985 and third among U.S. banks. Citibank, fourth among American banks, ranked 27th overall. Chase Manhattan was fifth among banks and 32d overall, while Manufacturers Hanover Trust Co. came in sixth in the U.S. bank grouping and 47th overall.

Of the nation's 10 largest commercial banks, First National Bank of Chicago, Chemical Bank, Security Pacific National Bank, and Continental Illinois National Bank and Trust Company of Chicago failed to rank among the top 50 overseas managers of Eurobond issues.

Bank of America, Citibank, Chase, and Manufacturers Hanover together achieved a market share of 3.6% in 1985, which was smaller than any of the nine institutions at the top of the league — Credit Suisse First Boston; Morgan Guaranty; Merrill Lynch International; Salomon Brothers Inc.; Deutsche Bank AG; Nomura Securities Co.; Morgan Stanley & Co.; Goldman, Sachs & Co.; and United Bank AG, Switzerland.

There are several explanations for why American commercial banks have so far made only modest inroads as managers of new international bond issues. For half a century, the Glass-Steagall Act has created a greater divide between commercial and investment banking than in many other countries. Only in the past 20 years or so have U.S. commercial banks established investment banking subsidiaries in offshore centers to conduct business deemed off-limits at home.

Therefore, it is not surprising that American investment banks have secured more business as lead managers in the international bond markets than the investment banking offshoots of U.S. commercial banks. After all, firms like Merrill Lynch, Salomon Brothers, and Morgan Stanley have used their domestic freedom to develop expertise and customer relationships in offshore markets.

HOW THE TEN LARGEST U.S. BANKS RANK IN 1985 INVESTMENT BANKING ACTIVITIES

	M&A Advice	Swaps Activity	Public Finance	Private Placements	Eurobond Underwriting
Citibank	1	1	3	1	4
Bankers Trust	2	2	1	3	2
Morgan Guaranty	N/A	4	2	2	1
Manufacturers Han.	3	3	6	9	6
Bank of America	5	8	8	4	3
Chase Manhattan	4	7	5	7	5
Chemical Bank	N/A	5	4	N/A	9
First Chicago	6	6	7	5	7
Continental Illinois	NA	N/A	11	6	N/A
Security National Bank	*	N/A	9	N/A	N/A

N/A Bank did not provide data needed for ranking
* Does not offer the service

The table shows where the largest banks ranked among themselves in the five investment banking businesses examined by *American Banker* this week.

Two U.S. commercial banks that have so far made the biggest splash overseas are wholesale banks — Morgan Guaranty and Bankers Trust. Their business approach more closely resembles investment banking than do those of most other U.S. commercial banks.

Running the books for international bond issues is widely viewed as a high-volume, low-profit-margin business, which causes some U.S. banks to shy away from the Euromarket.

"We have never wished to be the biggest in a league table for a volume business like that," said David O. Beim, managing director in charge of relationships with the bank's biggest corporate finance clients. He said the benefits of being No. 1 in that field can be outweighed by price competition among underwriters.

The presence of U.S. commercial banks in the primary market for international bond issues makes more sense against the background of profound changes in the international capital markets, where an increasing proportion of bond issues are swap-driven. This means they are issued by borrowers who intend to swap interest and currency positions with counterparts elsewhere. This way, each borrower, in effect, obtains funds in other markets at the finest terms that could be commanded in the home market.

"Our real interest is trading in the secondary markets," said one American banker in London. "We are not so much concerned about managing new issues as in trading bonds."

U.S. banks, with their strong foreign exchange dealing capacity, are extremely prominent in the interest rate and currency swap business — an area the *American Banker* examined Tuesday as part of this series. Citicorp claims it initiated the first Euro-swap operations as long ago as 1976, and invented the Euronote in 1978.

With the decline in syndicated international lending in the past four years, commercial banks have partially offset the lost interest income with fee income generated by the arrangement of note issuance and other backup facilities.

In addition, currency and interest rates swaps generate fees and offer opportunities for profitable trading on the foreign exchanges and interest rate futures markets. Informal estimates put the volume of 1985 currency swaps at $23 billion and the volume of interest swaps far above that figure.

In the past few years, securities firms have been rewarded by a rapid volume increase in their specialty areas: new issues and trading in the international bond markets. Commercial banks, on the other hand, have seen a decline in their specialty business of international syndicated lending.

U.S. bankers have recovered part of those revenues by generating fee income from relatively new markets. But commercial banks in the international money and capital markets are under some pressure to establish themselves in all sectors. Hence, their presence in the international bond markets, albeit a modest one. ■

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(1.) How useful was the information in this survey?

(A) Very Useful ☐ (B) Useful ☐ (C) Not Useful ☐

(2.) What do you like **best** about this feature edition?

(3.) What do you like **least** about this feature edition?

(4.) What themes or topics of vital interest to you would you like to see explored in future surveys?

(5.) How would you improve the survey?

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